TESTIMONY
OF
COLLEEN M. KELLEY
NATIONAL PRESIDENT
NATIONAL TREASURY EMPLOYEES UNION

ON

THE EFFECTIVENESS OF FEDERAL EMPLOYEE INCENTIVES

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SUBCOMMITTEE ON GOVERNMENT MANAGEMENT
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

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Chairman Voinovich, Ranking Member Durbin, Members of the Subcommittee, my name is Colleen Kelley and I am the President of the National Treasury Employees Union. As you know, NTEU represents more than l55,000 federal employees across the federal government.

I want to thank you for holding this hearing today to examine the federal government's incentive programs and their effectiveness. I share your belief that federal employees, just like their private sector counterparts, must believe that substantial rewards exist for excellence and productivity. Without appropriate compensation and incentives, the federal government will find it increasingly difficult to remain competitive and attract quality employees in the future.

The most critical compensation elements of federal employment - pay, retirement and health benefits - have each faced setbacks in recent years that have limited their competitiveness with the private sector. As you know, the Federal Employees Pay Comparability Act (FEPCA), has not been followed, leaving pay lagging far behind private sector wages for similar work. Moreover, federal employees have been forced, under the guise of deficit reduction, to pay more toward their retirement with no corresponding increase in retirement benefits. Finally, premiums for the Federal Employees Health Benefits Program (FEHBP) have increased almost 30% over the past three years and there is no relief in sight.

NTEU believes it is critical that Congress address these issues realistically. While a full range of incentive options is increasingly important in attracting and keeping employees, I think most individuals considering a career in public service - as well as those currently serving - would agree that adequate salaries, stable retirement benefits and affordable health insurance coverage are the key components that must be addressed if the federal government is going to remain a competitive employer.

As you know, acquiring and retaining employees with the best skills is a challenge for all employers. It is particularly so for the federal government. Less than half of the l997 graduating class at Harvard's John F. Kennedy School of Government accepted jobs with the federal government. In addition, a recent survey by the George Washington University's public administration department confirms this movement away from public service. Employment with the federal government was the preference of only 27 percent of the school's public administration graduates.

The situation is not new. The General Accounting Office (GAO) reported in l994 ("How Government Jobs Are Viewed On Some College Campuses") that little interest existed in pursuing a career with the federal government. That report found that low starting salaries and the poor image of government work helped fuel these decisions. Prior to this study, GAO reported in l990 that low federal pay was the most frequently stated reason for employees to leave federal service or decline a federal job offer in the first place.

According to many analysts, for most prospective employees, the most critical element in deciding whether or not to accept a job offer is salary. Under the l990 FEPCA law, federal employees were to receive an annual nationwide pay adjustment plus an annual locality-based comparability adjustment designed to begin to close the gap between federal and private sector salaries, measured at that time at approximately 30%. The law has never been implemented as intended and a substantial pay gap remains. Frankly, Mr. Chairman, a decision to fully implement FEPCA would do more to address recruitment and retention in the federal government than all remaining incentive programs combined.

The same law that created this new federal pay authority also authorized a number of other programs geared toward helping agencies recruit and retain employees. One provision permits federal agencies to offer retention allowances of up to 25 percent. Another gave agencies the authority to offer one-time bonuses of up to 25% of basic pay to recruit employees and/or relocate employees to less desirable locations

In December of l999, the Office of Personnel Management reported that overall, only 0.l4 percent of all Executive Branch employees received recruitment, retention or relocation incentives (3Rs) in Fiscal Year l998. Less than a quarter of l%. Recruitment bonuses were given 0.3 percent of the time. Relocation bonuses were given to l.0 percent of employees and 0.09 percent of employees received retention allowances. Women and minorities received fewer 3R incentives in comparison to their presence in the federal workforce, doing little to help workforce diversity efforts. (See: The Three Rs - Lessons Learned from Recruitment, Retention, and Relocation Incentives)

Furthermore, when these incentives were awarded, they were most often paid at a rate of l0% of basic pay, or less. The law authorizes recruitment, retention and relocation incentives to be paid at a rate up to 25% of basic pay. When OPM interviewed a sample of small, medium and large agency users of 3R incentives to determine if their use was meeting agency needs, a majority stated that greater use of these flexibilities was going to be necessary if the federal government intends to continue to recruit and retain highly skilled and qualified employees. When asked what the most common impediments were to greater use of the 3Rs, agencies cited budgetary constraints and prolonged hiring freezes.

The same is true of performance awards, incentive awards and even bilingual awards, which NTEU negotiates with the agencies where we represent employees. Agencies simply do not have the resources to adequately fund these important incentives. They are constantly forced to rob Peter to pay Paul.

Whether fully implementing FEPCA as the best tool to insure that the federal government has continued access to the best employees, or expanding the use of recruitment, retention and other incentives, the solution is the same. Until Congress provides adequate discretionary funding to federal agencies, these problems will remain. With the deficit behind us and surpluses predicted for the immediate future, we have an opportunity to provide adequate resources to federal agencies for these purposes. Absent additional resources, these problems will continue

However, as I have stated, incentives alone will not make the federal government a competitive employer. Realistic pay rates and competitive retirement and health benefits combined with popular private sector compensation practices will be needed. Today's strong national economic growth combined with the highly competitive job market makes it critical that Congress address these challenges. The fact is, the federal government faces stiff hiring competition.

While the federal government struggles under artificial budget constraints to adequately fund its basic pay and benefits package, private industry has recognized the impact our full employment economy has had on attracting the best employees. They have forged ahead with meaningful incentives - most of which are not available in the federal government. They include stock options and profit sharing, investments in employee education through tuition reimbursement programs, topnotch training programs, concierge services that allow time spent on errands and chores to be devoted instead to family and work, fitness centers, health club reimbursements and a virtual laundry list of benefits designed to promote a sense of community both inside and outside the office.

In the past few years, family friendly programs such as alternative work schedules, telecommuting options, flexiplace, leave banks, child care facilities and opportunities to use personal sick leave to care for ill family members have all provided incentives for employees to join or remain in the federal workforce. While we continue to believe that salary remains the most effective tool in attracting quality employees, these family friendly incentives have proven effective in both the public and private sectors. The benefits of these programs far outweigh their expense, but here too, funding remains an issue.

One of the most prominent benefits routinely made available to private sector employees is on-site subsidized child care facilities. Private industry has found that making affordable child care available to its employees helps make the inevitable choice between family and work a little less stressful. A prominent l994 study found that for every dollar a company spent on flexible work and family benefits, there was a return of $2 to $6 dollars resulting from reduced absenteeism, increased morale and motivation and higher rates of employee retention.

For working families with children between the ages of three and five, child care is their second or third largest household expense. It is not uncommon for child care expenses to reach $l000 per month. Since l989, the Defense Department has used its appropriated funds to subsidize child care for the uniformed military. Last year's Defense Authorization Bill (P.L.l06-65) gave the Secretary of Defense the authority to subsidize child care costs for civilian and contract DoD employees as well.

NTEU was also successful last year in attaching language to the Fiscal Year 2000 Treasury Appropriations bill giving all federal agencies the discretion to use their appropriated funds to subsidize child care expenses for their lower paid employees. Unfortunately, this language will expire September 30, providing little time to determine whether this provision has achieved its intended effect - helping to make safe, quality child care available to lower paid federal employees while positively impacting morale and worker productivity. Here again, however, due to budgetary constraints, agencies have not been provided with any funding for this important purpose, rather they will be permitted to use existing funds where available. NTEU is currently negotiating for child care subsidies for the lower paid workers we represent. We are also actively seeking an extension of language permitting these subsidies and would certainly appreciate the Chairman's assistance in this effort. Like so many private companies have found, we believe making child care subsidies available will have a profoundly positive effect on the federal government's ability to attract and retain key employees.

I also want to bring to the Chairman's attention what NTEU believes has become a major disincentive for employees we represent at the Internal Revenue Service. As part of the IRS Restructuring and Reform Act of l998 (RRA), Congress enacted Section l203 which lists ten infractions for which IRS employees face mandatory dismissal. IRS employees work in fear of what have come to be known as the "l0 Deadly Sins," and this is seriously undermining IRS' efforts to carry out its mission.

The broad scope and vague nature of the l0 Deadly Sins have created anxiety and confusion in the workplace. These infractions, which range from IRS employees not paying their taxes on time to improperly placing a lien on a delinquent taxpayer have **always** subjected employees to discipline, including dismissal, and rightly so. However, the RRA's requirement for mandatory dismissal of employees is having a chilling effect on collections and morale at the IRS. No other government employee in the executive, judicial or legislative branch - and in fact no other American taxpayer - must be fired solely on the basis of paying their taxes one day late.

NTEU vigorously opposed Section l203 and continues to believe that this section of the Act should be repealed. IRS employees have justifiably expressed fears that they could inadvertently break one of the rules and face immediate termination. In order to relieve the anxiety these employees feel, NTEU believes Congress needs to take another look at this section of the law. We would be grateful for the Chairman's assistance in this matter as well.

In conclusion, Mr. Chairman, I believe from our prior conversations that we are in agreement that the most valuable resource the federal government has is its employees. There is a direct link between employee job satisfaction and whether or not the federal government's customers are satisfied. Research over the years has shown that the quality of service provided is a reflection of the employment situation created by the organization. This is no less true for the federal government than for private sector business. I believe you are doing a great service by holding hearings such as this today to publicize these issues and work toward solutions. NTEU hopes to work toward solutions with you. Thank you very much. I would be happy to answer any questions.